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DRAFT : WMA

MEMORANDUM TO: Acting Ch/C/AR

DATE: 7 February 1956

FROM: Acting Ch/D/E/AR

SUBJECT: D/E Comments on the Briefing Paper, "Gains in Trade, Expressed in Dollars, which might follow from the virtual elimination of all controls on trade with the Bloc." dated 30 Jan 56

General Comment

1. The subject paper attempts to answer the narrow question, "What gains or losses in dollars to the United States and its major allies would result from the virtual removal of all controls on trade with the Bloc?", which question was asked by the Chairman of the Council on Foreign Economic Policy.

2. As evidenced by the discussion in the last three paragraphs of the subject paper, it is difficult, not impossible, to answer the narrow question without making statements or inferences concerning the Sino-Soviet bloc capabilities and the effect upon the bloc of Western trade controls. All references in this paper to the Soviet bloc indicate that the Bloc is in a strong position with respect to resources and ability to export. The paper in fact emphasizes the Bloc's rapidly expanding capability to export many commodities in categories similar to those being controlled by the Free World. No reference, however, is made to Bloc import requirements or its vulnerability to the denial of some items from non-Communist countries. Accordingly the paper fails to present a balanced picture of the role of the Bloc as a trading partner.

3. Similarly the only references made to the impact of Western exports controls indicate that the controls have furthered Soviet bloc self-

sufficiently for indication is given that Western controls may have had

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an adverse effect upon Soviet imports. If the effect of Western controls is cited with respect to the Soviet policy toward autarchy, a comparable reference to the impact of controls would logically be incorporated in the statement regarding the relatively constant volume of Soviet imports of industrial equipment, chemicals and petroleum products in the 1953-56 period.

Specific Comments

4. First paragraph:

- a. The estimate of \$350 million (para. 1) apparently refers to the entire Bloc. If so, Sino-Soviet Bloc should be substituted for Soviet Bloc in the first line of the memorandum.
- b. The use of the word might (instead of say probable) implies that the estimates indicate the upper limit or maximum increase. If this is intended, probably this interpretation of the estimate should be stated rather than implied.
- c. The estimates in the first paragraph assume there will be no change in Bloc policy but this fact is not brought out until the last paragraph. This assumption could be expressed in paragraph 1 in a manner similar to the reference to assumption of no significant extension of Western long-term credits.

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5. Third paragraph:

- a. In this paragraph rates of change in dissimilar items are compared without indicating with sufficient clarity the relative magnitude of the items. The reader gains the impression that the Soviet Bloc is in a strong and comparatively independent position with respect to imports and exports. The inference in this paragraph, and also in the 5th paragraph, is that Western Trade controls have stimulated Bloc production of commodities similar to those subject to control, but no reference is made to the effect of Free World controls upon the level of Bloc imports.
- b. The opening sentence of the third paragraph states that the Bloc has continued to develop a rapidly expanding capacity to export many commodities in categories similar to those being controlled by the Free World. However, there is no indication as to whether the commodities are actually being exported, and if so, in what volume. Furthermore, there is no indication as to the number or proportion of control-type items available for export. The relationship between the export of control — type items and aggregate exports from the Bloc is not clear. The inference from the topic or opening sentence is that the export of items similar to

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Western controlled commodities is of primary importance for the analysis at hand. This, however, is not the case unless the efficacy of Western trade controls is at issue. In which event a statement should be made regarding the possible significance to the Bloc of a shift in the composition of its imports from the West as well as potential increase in over-all trade which might result from a relaxation of controls.

6. Fourth paragraph:

The meaning of the last sentence in this paragraph is unclear. Apparently the word it in the last clause of the sentence refers to industrial equipment. However, Bloc demand could be interpreted as the antecedent of it. If such is the case, the word not should be eliminated.

Incidental Comment

7. The general tenor of the paper is to minimize both the potential increase in volume of East-West trade and the efficacy of Free World trade controls. The inference is that it makes little difference what is done with respect to Western trade controls. If the possibilities for expanded trade with the Sino-Soviet bloc are as limited as indicated in the subject memorandum, the situation should be analyzed with care and in detail, and the facts should be made known to businessmen and legislators in all Free World countries.